

THUNGELA RESOURCES LIMITED

(Incorporated in the Republic of South Africa)

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JSE Share Code: TGA

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('Thungela' or the 'Company' and, together with its affiliates, the 'Group')

ACQUISITION OF CONTROLLING SHAREHOLDING IN THE ENSHAM COAL MINE AND ELATED ASSETS

1. Introduction

In line with its commitment to deliver superior returns to shareholders, and delivering on its purpose to responsibly create value together for a shared future, Thungela is pleased to announce that it has entered into agreements, as set out below, which envisage Thungela obtaining a controlling interest in the Ensham coal mine.

Thungela has, subject to regulatory approvals, entered into an agreement with Audley Energy Limited ("**Audley Capital**") and Mayfair Corporations Group Pty Ltd ("**Mayfair**") (collectively the "**Co-investors**") in terms of which *inter alia* Thungela, through its wholly owned subsidiary, Thungela Resources Australia Pty Ltd ("**Thungela Australia**"), will acquire a majority shareholding interest in Sungela Holdings Pty Ltd (a newly incorporated private company with limited liability, registered in accordance with the laws of Australia) ("**Sungela Holdings**") and will loan fund a portion of the Co-investors equity contributions (the "**Transaction**", as further defined below). Further details of the Transaction are set out in paragraph 5 below.

Sungela Holdings will, in turn, through its wholly owned subsidiary, Sungela Pty Ltd ("**Sungela**"), acquire an 85% interest in the Ensham Joint Venture from Idemitsu Australia Pty Ltd and its subsidiary, Bligh Coal Limited (together, "**Idemitsu**"), as well as Idemitsu's 85% shareholding in Ensham Coal Sales Pty Ltd; its 100% shareholding in Ensham Resources Pty Ltd (the operator of the Ensham coal mine) and its 85% shareholding in Nogoia Pastoral Pty Ltd and Nogoia Pastoral Joint Venture (collectively, the "**Ensham Business**") (the "**Acquisition**").

Sungela will also conclude royalty and transitional services agreements with Idemitsu. (See paragraph 6 below for further information regarding the Acquisition.)

The Transaction delivers on Thungela's strategy, by providing geographic diversification through a highly cash generative thermal coal asset, with long-life potential, at an attractive valuation, and puts Thungela in a position to capitalise on the current strong Newcastle coal price environment.

2. Overview of the Ensham coal mine

The Ensham coal mine is the primary asset of the Ensham Joint Venture, and comprises several tenements located within the well-established and infrastructure-enabled southern Bowen Basin in Queensland, Australia. The Ensham coal mine is currently 85% owned by Idemitsu, with the remaining 15% owned by LX International ("LXI"), through its subsidiary Bowen Investment (Australia) Pty Ltd ("**Bowen**"). Initially established as an open cut mine, the Ensham coal mine has been an underground operation since 2012. The Ensham coal mine produced approximately 3.2 Mt of high-quality, low-ash and low-sulphur thermal coal in 2022, and has the potential for increased production in the future. Subject to extension of the existing mining approvals, the Ensham coal mine has a life of mine through to c. 2039.

Run of mine ("**ROM**") coal is produced by bord and pillar underground methods using five continuous miners exploiting two main economical seams. This mining method is well aligned with Thungela's operational methodology deployed across its underground mines in South Africa. ROM coal is brought to surface where it is crushed, sized and stockpiled without any washing or further processing. The coal is then loaded onto trains via a 13 km dedicated rail spur and is transported via the Blackwater rail system (339 km total distance) to the port of Gladstone from where it is exported, predominantly into Asian markets (including Japan, Taiwan, Korea and India).

3. Rationale for the Transaction

The Transaction delivers on Thungela's strategy to pursue geographic diversification, and is in a commodity we understand well and in which we can leverage our core skills. The Transaction also satisfies our investment evaluation criteria of responsible stewardship, upgrading our asset portfolio and maximising shareholder value. The Transaction is a step towards de-risking our underlying business and bolstering our resilience, recognising the ongoing infrastructure challenges in South Africa.

Geographic diversification into a leading mining jurisdiction – The Transaction provides Thungela with an attractive entry point into Australia, a leading mining geography with a successful track record of thermal and metallurgical coal production, and to a

mining basin with well-established port and rail facilities. This diversification also decreases our exposure to a single geography.

Attractive high quality, long-life potential asset with mining methodology aligned to Thungela's operational expertise - The Ensham coal mine has a potential life of mine of approximately 16 years and produces high quality coal (5,850 kcal/kg, with low ash and sulphur content) which does not require beneficiation. Ensham operates an underground bord and pillar mine using continuous miners - this methodology is aligned to Thungela's extensive experience operating similar thermal coal assets in South Africa, providing a clear opportunity to leverage our core skills with a view to enhancing value from the mining operations. All operating licences are in place through to 2028, with an operating licence renewal due in 2028.

Increased scale and marketing capability - Based on 2022 performance, the Ensham coal mine would have added 3.2Mt of export saleable production (on a 100% basis) to Thungela's current portfolio. Under the Transaction, Thungela will have operational control of Ensham coal mine and, subject to certain existing arrangements, envisages marketing its proportional share of the coal produced by Ensham coal mine. This will provide Thungela with access to the Japanese and other Asian markets where demand remains strong and also better balance the Group's price exposure by providing exposure to the strong Newcastle export coal price, complementing the Group's existing exposure to the Richards Bay benchmark coal price.

The Transaction is expected to be earnings and cash flow accretive, with strong potential for a short payback period - Approximately two thirds of Ensham coal mine's 2023 budgeted production has been forward sold at attractive prices. Based on the current market observed forward curve for Newcastle thermal coal, the payback period of the Transaction is potentially within two to three years. Furthermore, Ensham coal mine occupies a favourable position on the global seaborne margin curve.

Ensham Business acquired from a responsible owner – Idemitsu is a responsible and reputable owner with a long history of operating in Australia (as well as on-going operations in the region). The sale to Sungela allows it to exit the Ensham Business in a responsible manner to a buyer which will become part of a listed group (Thungela) equally committed to driving ESG aspirations. The Ensham Business is well capitalised and the environmental liabilities and risks are well understood.

ESG investment criteria met – taking a controlling interest in a mining asset already in production means that we are able to extend the life of our business without creating new carbon units on a global basis. Following completion of the Transaction, the Ensham coal mine will be incorporated into Thungela's plan to reduce carbon intensity at existing

operations and considered in Thungela's intermediate emissions reduction targets. We will also continue to support the existing regional communities and supplier base.

Strategic investment with experienced mining investors and operators – the Co-investors have considerable experience in the Australian mining industry and will assist Thungela in entering this market. Our partners have already demonstrated their ability to add value to the operations of Ensham and their longstanding relationship with LXI, key regulators, industry bodies and other key local stakeholders in Australia will be important, particularly during the initial post-completion transition period.

4. Information on Sungela Holdings and the Co-investors

Sungela Holdings is a recently established Australian company formed to be an investment holding company through which Thungela Australia and the Co-investors will hold their investment into the Ensham Business. Pursuant to the initial implementation of the Transaction, Thungela will own a 75% shareholding interest in Sungela Holdings and Audley Capital and Mayfair will, together, own the remaining 25%. Sungela Holdings is the sole owner of Sungela, a company through which the Acquisition will be implemented.

Audley Capital was formed in 2005 and is a Switzerland-based investment group focused on long-term investment opportunities in the mining and metals sector. Audley Capital concentrates on acquiring non-core producing assets from established mining and metals companies, deploying "best-in-class" management to optimise efficiency and unlock value. The beneficial owners of Audley Capital are King's Chapel Investments Limited, Joey Investments Limited and Lucio Genovese. King's Chapel Investments Limited and Joey Investments Limited are entities associated with principals of Audley Capital.

Mayfair is a private resource company located in Brisbane, Australia. Mayfair invests in operating and advanced exploration projects in bulk commodities, precious, base, strategic metals and other critical minerals. Mayfair's senior management team has significant experience in managing and financing metal and natural resource mining operations in Australia, North America and South America. Mayfair currently has a diversified portfolio of both operating and exploration projects in coal, vanadium, gold and copper assets. Mayfair is jointly owned by Pirose Pty Ltd, Yellowstone Minerals Pty Ltd, Kualia Holdings Pty Ltd, Linger & Dye Investments Pty Ltd and White Lodge Holdings Pty Ltd.

5. The Transaction

The Transaction comprises:

- a subscription of AU\$267 million by Thungela Australia for an initial 75% shareholding in Sungela Holdings;
- a mezzanine loan of AU\$68 million from Thungela to the Co-investors ("**Co-investors Mezzanine Loan**") which, in turn, will use such funds and their own capital to subscribe for a 25% shareholding in Sungela Holdings for a total contribution of AU\$73 million

(The equity subscription, Co-investors Mezzanine Loan and relationship of Thungela and the Co-Investors as shareholders in Sungela Holdings is collectively "**the Transaction**".)

A long-term incentive plan ("**LTIP**") will be put in place for the Co-investors under which their shareholding could increase by a further 5% if certain milestones are achieved which have the potential to be significantly value-accretive to the Ensham Business over the medium to long term. Should all of the shares in Sungela Holdings which are available under the LTIP ("**LTIP shares**") be awarded, the combined shareholding of the Co-investors shall be 30%, and Thungela Australia's shareholding will correspondingly be 70%. The Transaction will therefore result in Thungela having an initial 63.75% flow-through shareholding in the Ensham coal mine and 59.5% if the LTIP shares are issued in full. Together with this, Thungela will derive a return from the Co-investors Mezzanine Loan, as further described below.

Under the Acquisition and under law, as majority shareholder of the Ensham coal mine, Sungela will assume responsibility to manage the operations and discharge the rehabilitation liabilities. These liabilities are presently secured under the State established Queensland Financial Provisioning Fund, and Sungela will apply for this to continue following the change in identity of the mining right (tenement) holder from Idemitsu to Sungela. The rehabilitation liability of the Ensham coal mine is valued at AU\$274 million (on a 100% basis) – this is based on calculations submitted to the scheme manager of the Queensland Financial Provisioning Fund. This calculation was accepted by the scheme manager in December 2022.

Pursuant to the shareholder agreements, Thungela will be entitled to operational control of the Ensham coal mine and, subject to certain existing arrangements, it is envisaged that Thungela will also have the right to market and sell its proportional share of the coal produced by Ensham.

The Co-investors Mezzanine Loan accrues interest at the rate of the Australian Stock Exchange's 3-month bank bill swap rate, plus 10%, per annum, subject to a floor of 10% and a cap of 15%. The term of the Co-investors Mezzanine Loan is four years, with the potential for the Co-investors to extend it for up to two further years. The Co-investors Mezzanine Loan may be repaid (in full or in part) voluntarily at any time.

However, the Co-investors are required to apply not less than 70% of all distributions received from Sungela Holdings to service the Co-investors Mezzanine Loan.

6. Additional information on the Acquisition

The purchase price ("**Purchase Price**") payable by Sungela for the Acquisition is AU\$340 million (R4.1 billion), subject to an increase or decrease (on and post the Completion Date, as defined below, as applicable) for changes in the net working capital and certain contract receivables in the Ensham mine relative to a target working capital set out in the sale and purchase agreement ("**Working Capital Adjustment**").

If the amount of the Working Capital Adjustment is positive, the Purchase Price will increase with the amount of the Working Capital Adjustment. If the amount of the Working Capital Adjustment is negative, the amount of the Working Capital Adjustment will be repaid by Idemitsu to Sungela.

The Acquisition is based on a "locked-box mechanism" (1) from 1 January 2023, pursuant to which Sungela will be entitled to a formula-defined portion of the net cash flow generated by the Ensham Business (excluding the operating company) during the period between 1 January 2023 and the date on which the Acquisition is implemented ("**Completion Date**"), subject to a maximum participation by Sungela of AU\$102 million (c. R1.2 billion).

The Ensham Business is subject to a royalty agreement in favour of Idemitsu, in terms of which Idemitsu will be entitled to a royalty on sales of coal by Ensham should the realised Free On Board ("**FOB**") price exceed the threshold price of US\$170 per tonne in 2023 and US\$150 per tonne in 2024. The royalty is 50% of the net margin, being the realised price, less threshold price, less the proportionate Queensland state royalties.

Sungela and, *inter alia*, Idemitsu have entered into (or will enter into) a transitional services agreement for the continued provision of certain agreed specified services (currently being provided by Idemitsu) for a period of three months from the Completion Date, with the option to Sungela of a one-month extension. The agreed services will be provided at an initial service fee of AU\$1.5 million for the initial three-month period, plus AU\$500,000 for the fourth month should the agreement be extended.

7. Conditions precedent

Save for limited intermediate aspects, implementation of the Transaction is subject to the Acquisition being concluded and becoming unconditional.

The Acquisition is subject to the fulfillment, or waiver as the case may be, of the following conditions contained in the sale and purchase agreement by 30 September 2023:

- i. Payment of a deposit of AU\$14 million within 30 business days of signing the sale and purchase agreement;
- ii. The Treasurer of the Commonwealth of Australia has exercised its powers in terms of the Foreign Acquisitions and Takeovers Act 1975 and has not objected to the Acquisition;
- iii. The Australian Competition Consumer Commission has not objected to the Acquisition or provided notification of its intent to restrain or prevent completion of the Acquisition;
- iv. Approval of the Acquisition by the relevant regulatory authority in terms of the Queensland Mineral Resources Act 1989 and the Queensland Mineral and Energy Resources (Common Provisions) Act 2014;
- v. Receipt of a notification from the scheme manager in terms of section 33(2) of the Queensland Mineral and Energy Resources (Financial Provisioning) Act 2018;
- vi. Waiver of pre-emptive rights by the co-shareholder in Bowen of its pre-emptive right to acquire Idemitsu's interest in the Ensham Business;
- vii. Receipt of third party consents to assignment of specified material contracts;
- viii. Execution of the deeds required to terminate the joint venture arrangements that Idemitsu has with Bowen, and release it from any liability associated with the Acquisition; and
- ix. The receipt of all necessary governmental and regulatory approvals or consents including the Financial Surveillance Department of the South African Reserve Bank.

8. Financial information

The Transaction involves the investment by Thungela into Sungela Holdings, a newly established holding company, and related funding arrangements. As such, the Transaction *per se* has no direct net asset value ("NAV") or attributable net profit after tax ("NPAT").

The Ensham coal mine had a NAV of AU\$402 million (100% basis) as at 31 December 2022, being the date of the last available unaudited management accounts. The NPAT attributable to these net assets was AU\$670 million (on a 100% basis), based on the unaudited management accounts of the Ensham Business for the year ended 31 December 2022. Thungela is satisfied with the quality of the management accounts from which the aforementioned NAV and attributable NPAT were extracted.

9. Classification of the Transaction

The Transaction is classified as a Category 2 transaction in terms of Section 9 of the JSE Listings Requirements. An exchange rate of ZAR 12.08 / AU\$ was utilised in respect of the Transaction, being the spot rate of exchange at close of business on 2 February 2023, the first business day prior to the signature of the investment agreement by Thungela.

10. Other

The Company confirms, for purposes of paragraph 9.16 of the JSE Listings Requirements, that nothing in the constitutional documents of Sungela Holdings or its subsidiaries will in any way frustrate or relieve the Company from compliance with the JSE Listings Requirements.

Rosebank
3 February 2023

Footnotes

(1) A locked-box mechanism is a mechanism through which parties to a transaction, such as a share or asset purchase transaction, agree on the purchase consideration for the assets or the business based on the target company's balance sheet, which is drawn up and settled between the parties as at an agreed date (i.e. 1 January 2023 in this case) before completion of the transaction and notionally retained in a locked box.

Disclaimer

The information contained within this announcement is deemed by the Company to constitute inside information as stipulated under the market abuse regulation (EU) no. 596/2014 as amended by the market abuse (amendment) (UK mar) regulations 2019. Upon the publication of this announcement via the regulatory information service, this inside information is now considered to be in the public domain.

Investor Call Details

A conference call and audio webinar relating to the details of this announcement will be held at 12:00 SAST on Friday 3 February 2023. Thungela is currently in a closed period until the release of the Group's 2022 annual results on 27 March 2023 and the focus of the call will be limited to the details of this announcement. Matters relating to the 2022 annual results will not be discussed.

Conference Call registration:

<https://services.choruscall.za.com/DiamondPassRegistration/register?confirmationNumber=8388694&linkSecurityString=14928dd26e>

Audio webinar registration:

<https://services.themediaframe.com/links/thungela10043858.html>

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